

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 ANKARA 002130

SIPDIS

STATE FOR E, P, EUR AND EB  
TREASURY FOR U/S TAYLOR

E.O. 12958: N/A

TAGS: [ECON](#) [PREL](#) [TU](#)

SUBJECT: PRIVATIZATION UPDATE: THE FIRST MAJOR SALE OF  
YEAR; DEFENSE OF PRIVATIZATION JOB LAW

REF: A. ANKARA 2010

[1](#)B. ANKARA 2051

[1](#)1. (SBU) SUMMARY: A top GOT Privatization Administration (PA) official told us March 28 the GOT is on track to meet its \$4 billion sales target for 2003, which will result in \$2.6 billion in PA revenue this year and the rest to be paid by installment. The official defended the GOT's proposed law to allow privatized state workers to convert to civil service jobs, saying it will bring short-term savings by eliminating the need to pay severance packages. World Bank officials say this law may violate the current IMF Letter of Intent under negotiation by exceeding the GOT hiring cap. The PA is also preparing for next week's bid deadline for the purchase of the first quarter's feature privatization - the petrochemical giant PETKIM. END SUMMARY.

[1](#)2. (SBU) On March 28, we met with new PA Vice President, Kenan Isik, who had been an advisor to Deputy Prime Minister Sener (Sener oversaw the PA until last week when the privatization portfolio was officially moved to the Finance Ministry - reftels). Isik said that of the more than \$4 billion in expected privatization sales in 2003, about \$2.6 billion will be realized this year, with the rest to be paid in installments in later years. For large sales such as TEKEL and PETKIM, high downpayments will be required up-front. Isik also noted that the GOT recently included the National Lottery Administration, Istanbul Stock Exchange, Halk Bank, and tollroad motorways into the privatization portfolio.

Defense of "Privatization Job Law"

[1](#)3. (SBU) Isik worked closely with Sener in drafting the "Privatization Job Law," proposed in February (and currently in Parliament), that would allow workers in state economic enterprises (SEEs) scheduled for privatization to convert to civil service jobs. He claimed that this law is necessary to reduce the resistance of unions that in the past have successfully persuaded the High Privatization Board to cancel privatization initiatives (for instance, PETKIM lawsuit - see para 9). In addition, he said this law would actually lead to fiscal savings.

[1](#)4. (SBU) Isik said there are approximately 67,000 workers employed in SEEs under the PA portfolio. He estimates that, following privatization, 25,000 will convert to civil service, 10,000 will stay with the privatized companies, and the remainder will receive severance packages from the Privatization Social Support Program, a joint GOT/World Bank \$250 million fund (the Bank funds 70 percent of this fund). Civil service salaries are much less than the unionized State Economic Enterprise (SEE) ones. Several SEEs are virtually not producing anything. Isik estimates PA annual losses at \$250 million, largely salary expenses in unproductive enterprises. Isik calculated that paying salaries to the 25,000 people who enter the civil service will cost the GOT less than paying their severance packages.

[1](#)5. (SBU) World Bank official Ismail Arslan, however, stated that the WB is adamantly opposed to this legislation. "In the short-run, conversion to civil service jobs might give the impression of fiscal savings, but you're giving permanent employment to these people and you have to consider the medium and long-term implications," he said. Arslan said this legislation also appears to violate a condition of the current IMF Letter of Intent which requires the GOT to cap its civil service hiring at 35,000 for 2003. He said that from discussions with the GOT, most of these 35,000 jobs were slotted for teachers, health professionals, and security personnel (Isik stated that most of the 25,000 new civil service employees would be inserted into the Health and Forestry Ministries. However, Arslan questions whether this

block of employees would have the qualifications for such skilled positions as were initially proposed.)

#### First Major Sale of Year is PETKIM

-----

16. (SBU) The Turkish state petrochemical company PETKIM is slated for final sale by the end of this year. Arslan said the World Bank is watching this privatization closely, as PETKIM is one of five state companies the GOT must sell to meet the conditions of a World Bank economic reform loan, totaling \$760 million (roughly half has been disbursed already). Bid submissions are due April 2, and expected to be made public that evening. Though PA officials won't disclose the bidders thus far, sources at PETKIM have informed us that Russian oil companies GAZPROM and LUKOIL, along with Saudi paristatal SABIC (Saudi Arabian Basic Industries Group), are among the bidders. Press reports from March 23 indicate that the Turkish textile and construction firm Sanko, based in Gaziantep, may bid for PETKIM as well.

17. (SBU) Once the bids are in, a tender commission consisting of five PA officials will narrow down the list by examining the prospective companies' partnership structures, experience, investment strategies, and willingness to post a \$10 million deposit. In June, those companies that survive the first cut will participate in a PA-led auction that will be broadcast live on national television in Turkey. Once the high bidder is selected, the PA will require a 40 percent downpayment up-front.

18. (SBU) PETKIM's net sales in 2002 were \$643 million and its total assets in 2001 were \$727 million, according to official GOT data. Its most profitable years were in the mid-1990s, when it brought in \$1.2 billion profit in 1995 and approximately \$900 million in 1996 and 1997 (The decline in profits over the past five years correlates to an overall downturn in the petrochemicals industry. This is due in part to the fact that operating costs for such companies are tied to the price of crude oil). PETKIM currently has 4,586 employees and controls 35 percent share of Turkey's petrochemicals market. PA owns 89 percent of the company, while PETKIM's pension fund owns 7 percent, and the remaining 4 percent is sold at the Istanbul Stock Exchange (ISEM). PA's plan is to have a block sale of anywhere between 51-89 percent of the company, with the remainder to be publicly offered at the ISEM. Murat Celebi, a PA official working on the PETKIM privatization, hopes to sell as much of the company in the initial block sale as possible. He added that the new investor will most likely build a new facility in the Adana-Ceyhan region so that it can better take advantage of natural gas inflows.

#### PETKIM Workers File Lawsuit

-----

19. (SBU) Like most large companies in the privatization portfolio, PETKIM's workers are starting to make noise. Press reported March 26 that Petrol-Is Labor Union (the oil sector labor union) filed a lawsuit to cancel PETKIM privatization, claiming that the GOT should specify the amount of shares to be sold, instead of announcing sale of at least 51 percent of the company's shares. The union is also claiming that PETKIM's sale should be held up because it is a strategic company with products that many sectors rely on.

#### TEKEL Privatization Plan Approved

-----

10. (SBU) On March 31, the Privatization High Council approved the PA's plan to sell the state alcohol and tobacco company TEKEL. This is one of the four remaining prior actions under the IMF Fourth Review. It allows the PA to advertise the tender for TEKEL in June. The Privatization High Council, which consists of the PM, DPM Sener, MinState Babacan, Finance Minister, and Industry and Trade Minister, may get a facelift soon. The GOT budget law that passed March 29 contains an article that allows PM Erdogan to choose the other four Council members from the GOT's Cabinet of 22 ministers. Ayhan Sarisu, the PA official leading the TEKEL privatization program, said that Erdogan is expected to name new Council members in the next few days.

PEARSON